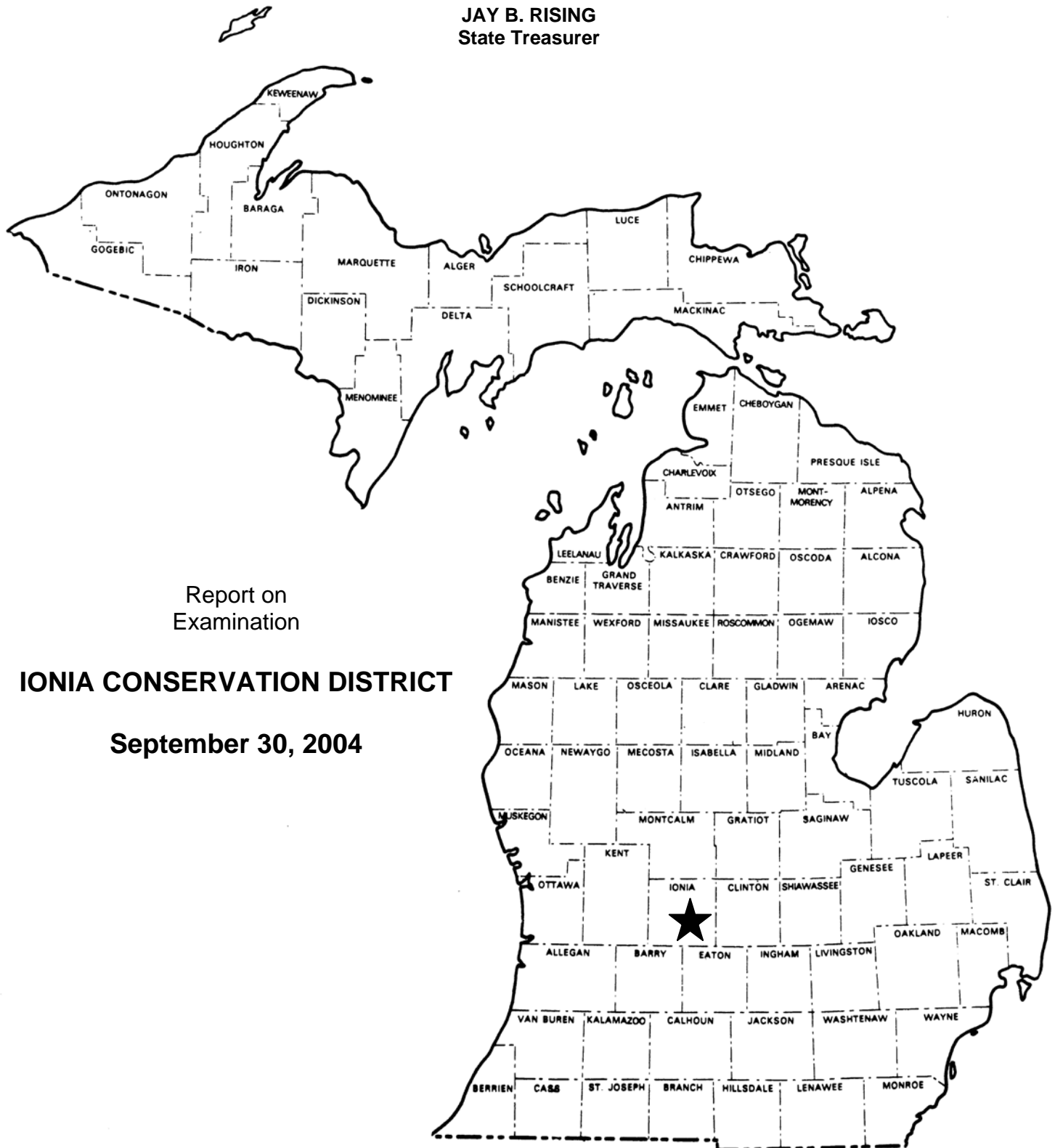


**STATE OF MICHIGAN**  
JENNIFER M. GRANHOLM, Governor  
**DEPARTMENT OF TREASURY**

JAY B. RISING  
State Treasurer



Report on  
Examination

**IONIA CONSERVATION DISTRICT**

**September 30, 2004**

Local Audit and Finance Division  
Bureau of Local Government Services

IONIA CONSERVATION DISTRICT  
BOARD OF DIRECTORS

Sara Possehn  
Chairperson

Edward Blyth  
Vice Chair

Cynthia Ackerson  
Secretary/Treasurer

Aaron Gasper  
Director

Art Pelon  
Director



JENNIFER M. GRANHOLM  
GOVERNOR

STATE OF MICHIGAN  
DEPARTMENT OF TREASURY  
LANSING

JAY B. RISING  
STATE TREASURER

November 8, 2004

Board of Directors  
Ionia Conservation District  
2568 Heartland Boulevard  
Ionia, Michigan 48846-8438

Independent Auditor's Report

Dear Directors:

We have audited the accompanying financial statements of the Ionia Conservation District, Ionia, Michigan, as of and for the year ended September 30, 2004, which collectively comprise the Conservation District's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the Ionia Conservation District's management. Our responsibility is to express opinions on these financial statements based on our audit.

As described in Note F, the Conservation District has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments, as of October 1, 2003.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Ionia Conservation District, as of September 30, 2004 and the respective changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated November 8, 2004, on our consideration of the Ionia Conservation District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with

Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis as identified in the table of contents is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Ionia Conservation District's basic financial statements. The Schedule of Revenues and Schedule of Expenditures, Exhibit E and Exhibit F, are presented for the purpose of additional analysis and are not a required part of the basic financial statements. Those statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements, taken as a whole.



Cary Jay Vaughn, CPA, CGFM  
Audit Manager  
Local Audit and Finance Division

# IONIA CONSERVATION DISTRICT

## TABLE OF CONTENTS

	<u>Page</u>
MANAGEMENT’S DISCUSSION AND ANALYSIS .....	1
<u>BASIC FINANCIAL STATEMENTS</u>	
EXHIBIT A--Governmental Fund Balance Sheet--Statement of Net Assets .....	5
EXHIBIT B--Statement of Governmental Fund Revenue, Expenditures and Changes in Fund Balance--Statement of Activities .....	6
EXHIBIT C--Statement of Revenues, Expenditures and Changes in Fund Balances Budget and Actual--General Operating Fund .....	7
NOTES TO FINANCIAL STATEMENTS .....	8
<u>SUPPLEMENTARY INFORMATION</u>	
EXHIBIT D--Schedule of Revenues--Budget and Actual General Operating Fund .....	13
EXHIBIT E--Schedule of Expenditures--Budget and Actual--General Operating Fund .....	14
Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of General Purpose Financial Statements Performed in Accordance With <u>Government Auditing Standards</u> .....	15
Comments and Recommendations.....	17

# **IONIA CONSERVATION DISTRICT**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

### Using this Annual Report

The Ionia Conservation District's discussion and analysis is designed to: a) assist the reader in focusing on significant financial issues; b) provide an overview of the Conservation District's financial activity; c) identify changes in the Conservation District's financial position (its ability to address the next and subsequent year challenges); d) identify any material deviations from the approved budget; and e) identify any issues or concerns.

### Overview of the Financial Statements

This annual report consists of a series of financial statements.

- The governmental fund balance sheet/statement of net assets presents all governmental activities of the Conservation District first by fund on a modified accrual basis, and then in total on a full accrual basis. The modified accrual fund-based columns present a short-term view of the Conservation District, and they tell us how much is available for future spending. The total full accrual column is intended to present a longer-term view, and tells us whether citizens have funded the full cost of providing services to date.
- The statement of governmental fund revenues, expenditures, and changes in fund balances/statement of activities also presents all governmental activities of the Conservation District, presented first by fund on a modified accrual basis, and then in total on a full accrual basis. The modified accrual fund-based columns tell us how the citizens money was spent during the year, while the total full accrual column tells us the cost of providing services this year, as well as whether citizens paid the full cost of providing services this year.
- The supplemental information contained in Exhibits E and F present in detail all governmental activities of the Conservation District on the modified accrual basis of accounting.

### Reporting the Conservation District as a Whole

The Statement of Net Assets and the Statement of Activities report information about the Conservation District, as a whole, and about its activities in a way that helps answer the question of whether the Conservation District, as a whole, is better off or worse off as a result of the year's activities. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting method used by most private-sector companies. All of the year's revenues and expenses are taken into account regardless of when cash is received or paid.

The two statements mentioned above, report the Conservation District's net assets and the changes in them. The reader can think of the Conservation District's net assets (the difference between assets and liabilities) as one way to measure the Conservation District's financial health or financial position. Over time, increases and decreases in the Conservation District's net assets are one indicator of whether its financial health is improving or deteriorating.

**IONIA CONSERVATION DISTRICT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**

Report the Conservation District's General Operations Fund

The fund financial statements begin on page five and provide detailed information about the general operating fund. The Conservation District currently has only one fund, the General Operations Fund, in which all of the Conservation District's activities are accounted. The General Operations Fund is a governmental type fund.

- Governmental Fund--The governmental fund focuses on how money flows into and out of this fund and the balances left at year end that are available for spending. This fund is reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the Conservation District's general governmental operations and the basic service it provides. Governmental fund information helps the reader to determine whether there are more or fewer financial resources that can be spent in the near future to finance the Conservation District's services. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and the governmental fund in a reconciliation following the fund financial statements.

Financial Analysis of the Conservation District as a Whole

The following table provides condensed information about the total full accrual finances of the Conservation District as of September 30, 2004 and 2003 and for the years then ended. As discussed above, the total full accrual columns report the Conservation District's net assets and how they have changed. The difference between net assets and liabilities is one way to measure the district's financial health or financial position. Over time increases or decreases in the Conservation District's net assets may be one indicator of whether its financial health is improving or deteriorating. To assess the overall health of the Conservation District, the reader also needs to consider additional nonfinancial factors such as the overall condition of the soil and water supply, and the changes therein.

	September 30	
	2003	2004
Assets		
Current and Other Assets	\$ 48,169	\$ 41,397
Total Assets	48,169	41,397
Liabilities		
Current Liabilities	6,992	6,667
Total Liabilities	6,992	6,667
Net Assets		
Unrestricted	41,177	34,730
Total Net Assets	\$ 41,177	\$ 34,730

# IONIA CONSERVATION DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS

The Conservation District's net assets decreased approximately 20.2% or \$7,047 from \$41,177 to \$34,730 for the year ended September 30, 2004. The net assets and change in net assets as summarized above.

The Conservation District does not have an investment in capital assets or any long-term debt.

### Changes in Net Assets

This is the first year of implementation of the Governmental Accounting Standards Board Statement (GASB) No. 34, which requires this new reporting model, the following table presents a comparison of prior and current year data.

<u>Statement of Activities</u>	2003 Governmental Activities	2004 Governmental Activities
Program Revenue		
Federal Grants	\$ 4,005	\$ 12,015
State Grants	18,845	20,000
Contributions From Local Units	11,875	10,000
Charges for Services	51,338	120,366
Investment Earnings	<u>223</u>	<u>126</u>
Total Revenue	<u>86,286</u>	<u>162,507</u>
Expenses		
Soil Conservation Operations	<u>83,307</u>	<u>168,954</u>
Total Expenses	<u>83,307</u>	<u>168,954</u>
Increase/(Decrease) in Net Assets	<u>\$ 2,979</u>	<u>\$ (6,447)</u>

### The Conservation District's Fund

The Conservation District's General Operations Fund is used to control the expenditures of Michigan Department of Agriculture Operations Grant, distributed to the District, which are disbursed for general operations of the District to create a gateway of information to our natural resources.

For the year ended September 30, 2004, the fund balance of the General Operations Fund decreased by \$6,447 as compared to an increase of \$2,128 in the fund balance for the year ended September 30, 2003 (last year). Total operating revenues were \$162,507, an increase of \$76,221 as compared to last year, which was primarily the result of an increase in charge for services comprised mostly of tree sales in the amount of \$64,435.

Total expenditures of \$168,954, equaled an increase of \$85,647 as compared to last year. This change in expenditures is primarily the result of an additional employee, increased services offered and additional trees purchased for resale.



**IONIA CONSERVATION DISTRICT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**

Budgetary Highlights

Prior to the beginning of any year, the Conservation District's budget is compiled based upon certain assumptions and facts available at that time. During the year, the Conservation District's Board acts to amend its budget to reflect changes in these original assumptions, facts and/or economic conditions that were unknown at the time the original budget was compiled. In addition, by policy, the board reviews and authorized large expenditures when requested throughout the year.

The original revenue budget for 2004 was less than the actual revenue by \$52,982. This was due, in large part, to charge for services of \$57,932, and other miscellaneous revenues of \$4,950.

The Conservation District's original expenditures were projected at \$109,525, while actual expenditures were \$168,954, resulting in actual expenditures exceeded the budget by \$59,429. This was primarily due to the following activities expending more funds that originally budgeted: nurseries \$28,700, grant wages \$27,456, and services offered \$3,273.

Capital Assets and Debt Administration

The Conservation District does not have any capital assets or debt.

Economic Factors and Next Year's Budget

The Directors of the Conservation District considered many factors when setting the fiscal year 2005 budget. One of the factors is the economy. The Conservation District derives approximately half of its revenues from tree sales. The recent economic downturn has resulted in decreased average tree order. Therefore, the District has increased promotion of new services and product offerings to reach new customers to sustain the District's financial needs.

The board realizes, and the reader should understand, that there are not sufficient funds available to consult with every land owner in Ionia County; therefore, the board attempts to spend the public's money wisely and equitably and in the best interest of the land owners and the citizens of Ionia County.

Contacting the Conservation District's Financial Management

This financial report is designed to provide the land owners, citizens and other interested parties a general overview of the Conservation District's finances and to show accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Conservation District for Ionia County administrative offices at: 2568 Heartland Boulevard, Ionia, Michigan 48846.

**IONIA CONSERVATION DISTRICT  
GOVERNMENTAL FUNDS BALANCE SHEET  
STATEMENT OF NET ASSETS  
September 30, 2004**

**EXHIBIT A**

	Modified Accrual Basis	Adjustments	Statement of Net Assets
<b><u>ASSETS</u></b>			
Cash and Cash Equivalents	\$ 37,650		\$37,650
Accounts Receivable	1,622		1,622
Inventories	1,356		1,356
Due From Federal Government	769		769
	<hr/>		
Total Assets	\$ 41,397	\$ -	\$41,397
<b><u>LIABILITIES</u></b>			
Current Liabilities			
Accounts Payable	\$ 452		\$ 452
Accrued Wages Payable	1,551		1,551
Sales Tax Payable	101		101
Deferred Revenue--Tree Sales	4,563		4,563
	<hr/>		
Total Liabilities	6,667	\$ -	6,667
<b><u>FUND BALANCE/NET ASSETS</u></b>			
Fund Balance			
Reserved for Inventory	1,356	(1,356)	-
Unreserved/Undesignated	33,374	(33,374)	-
	<hr/>		
Total Fund Equities	34,730	(34,730)	-
	<hr/>		
Total Liabilities and Fund Balance	41,397	(34,730)	-
	<hr/>		
Net Assets			
Unrestricted		34,730	34,730
	<hr/>		
Total Net Assets	\$ -	\$ 34,730	\$34,730
	<hr/>		

**The Notes to Financial Statements are an integral part of this statement.**

**IONIA CONSERVATION DISTRICT**  
**STATEMENT OF GOVERNMENTAL FUND REVENUE,**  
**EXPENDITURES AND CHANGES IN FUND BALANCE**  
**STATEMENT OF ACTIVITIES**  
**For the Year Ended September 30, 2004**

**EXHIBIT B**

	Modified Accrual Basis	Adjustments	Statement of Net Assets
Revenue			
Federal Grants	\$ 12,015		\$ 12,015
State Grants	20,000		20,000
Contributions From Local Units	10,000		10,000
Charges for Services	115,773		115,773
Interest and Rents	126		126
Other Revenues	4,593		4,593
Total Revenue	162,507	\$ -	162,507
Expenditures			
Other General Government	168,954		168,954
Total Expenditures	168,954	-	168,954
Excess of Revenue Over (Under) Expenditures	(6,447)	-	
Change in Net Assets		-	(6,447)
Fund Balance/Net Assets--Beginning of Year	41,177	-	41,177
Fund Balance/Net Assets--End of Year	\$ 34,730	\$ -	\$ 34,730

**The Notes to Financial Statements are an integral part of this statement.**

**IONIA CONSERVATION DISTRICT**  
**STATEMENT OF REVENUES, EXPENDITURES**  
**AND CHANGES IN FUND BALANCES--BUDGET AND ACTUAL**  
**GENERAL OPERATING FUND**  
**For the Year Ended September 30, 2004**

**EXHIBIT C**

	<b>GENERAL OPERATING FUND</b>			
	Orginal Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
Revenues				
Federal Grants	\$ 12,000	\$ 12,000	\$ 12,015	\$ 15
State Grants	20,000	20,000	20,000	-
Local Units of Government	10,000	10,000	10,000	-
Charges for Services	64,750	112,406	115,773	3,367
Interest and Rents	275	275	126	(149)
Other	2,500	2,500	4,593	2,093
Total Revenue	109,525	157,181	162,507	5,326
Expenditures				
Soil Conservation Operations	109,525	157,180	168,954	(11,774)
Total Expenditures	109,525	157,180	168,954	(11,774)
Excess of Revenues Over (Under) Expenditures	-	1	(6,447)	(6,448)
Fund Balance--October 1, 2003	41,177	41,177	41,177	-
Fund Balance--September 30, 2004	\$ 41,177	\$ 41,178	\$ 34,730	\$ (6,448)

**The Notes to Financial Statements are an integral part of the statement.**

IONIA CONSERVATION DISTRICT  
NOTES TO FINANCIAL STATEMENTS

NOTE A--DESCRIPTION OF DISTRICT OPERATIONS AND FUND TYPES

The accounting policies of the Ionia Conservation District (District) conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by Ionia Conservation District:

Reporting Entity

Ionia Conservation District is located in Ionia County and provides services to approximately 60,000 residents in many conservation areas. Ionia Conservation District is governed by a five member board. The District board consists of the chair, vice-chair, secretary/treasurer and two directors whom reside in the community.

In accordance with generally accepted accounting principles and Governmental Accounting Standards Board (GASB) Statement No. 14, "The Financial Reporting Entity," these financial statements present the records of the District. The criteria established by the GASB for determining the reporting entity includes oversight responsibility, fiscal dependency, and whether the financial statements would be misleading if data were not included. Accordingly, there are no other governmental units that are required to be included in the financial statements.

NOTE B--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Changes in Net Assets) report information on all of the activities of Ionia Conservation District. There is only one fund reported in the government-wide financial statements.

GOVERNMENTAL FUNDS

General Fund

This fund is used to account for all financial transactions except those provided for in another fund. The fund includes the general operating expenditures of the District. Revenues are primarily derived from grants, county appropriation, tree sales and donations. The fund includes the general operating expenditures of the local unit.

IONIA CONSERVATION DISTRICT  
NOTES TO FINANCIAL STATEMENTS

NOTE B--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized when it is both measurable and available. Revenues are considered to be available if they are collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

Revenues are recognized in the accounting period in which they become susceptible to accrual, that is, when they become both measurable and available to finance expenditures of the fiscal period. Intergovernmental revenue, charges for services and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the conservation district.

Budgets and Budgetary Accounting

Budgets are adopted by the District Board for the General Operating Fund. The budgetary basis of accounting does not differ significantly from the modified accrual basis used to reflect revenues and expenditures for the fund. The budget is adopted at the fund level and control is exercised at the line item level. The District Board monitors and amends the budgets as necessary.

IONIA CONSERVATION DISTRICT  
NOTES TO FINANCIAL STATEMENTS

NOTE B--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The budget revenues and expenditures for the general operating fund, as presented in Exhibit C, include any authorized amendments to the original budget as adopted.

Deposits and Investments

The cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less from the date of acquisition. Investments are stated at fair value and short-term investments are reported at cost, which approximates fair value, when obtained. The District currently does not purchase investments.

Accounts Receivable

At September 30, 2004, the accounts receivable for the District was \$1,622 which consists of \$137 in undeposited tree sale pre-orders and \$1,485 in sales to other governmental units that has not been collected and are not offset by deferred revenue.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

NOTE C--LEGAL COMPLIANCE

Excess of Expenditures Over Appropriations in Budgeted Funds

Public Act 2 of 1968, as amended, requires the legislative body to adopt a general appropriations act for the budget of the General Fund. The act also requires that amendments be approved as needed to prevent actual expenditures from exceeding those provided for in the General Appropriations Act.

The District's budget policy provides for the board to adopt and control the General Fund's budgets at the fund level. During the year ended September 30, 2004, expenditures were incurred in excess of the final amended budget, as follows:

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
District Expenditures	\$ 157,180	\$ 168,954	\$ (11,774)

IONIA CONSERVATION DISTRICT  
NOTES TO FINANCIAL STATEMENTS

NOTE C--LEGAL COMPLIANCE (Continued)

Adoption of Investment Policy

According to Public Act 20 of 1943, as amended, a formal investment policy is to be adopted by the board no later than August 31, 1998. As of September 30, 2004, the board of directors has not adopted an investment policy.

Adoption of Automated Clearing House Policy (ACH)

According to Michigan Compiled Laws (MCL) 124.303:

“A local unit shall not be a party to an Automated Clearing House (ACH) arrangement unless the governing body of the local unit has adopted a resolution to authorize electronic transactions and the treasurer or the Electronic Transaction Officer (ETO) of the local unit has presented a written ACH policy to the governing body.”

Ionia Conservation District electronically transfers funds for payroll withholdings and receives direct deposits without legal authority.

NOTE D--CASH AND INVESTMENTS

MCL 129.91 authorizes the District to deposit and invest in the accounts of Federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or Federal agency obligation repurchase agreements; bankers' acceptance of United States banks; commercial paper rated by two standard rating agencies within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

The District has not adopted an investment policy in accordance with the requirements of Public Act 20 of 1943, as amended. Excluding the lack of an investment policy, the District's deposits are in accordance with statutory authority. The District Board has designated one credit union for the deposit of District funds.



IONIA CONSERVATION DISTRICT  
NOTES TO FINANCIAL STATEMENTS

NOTE D--CASH AND INVESTMENTS (Continued)

Governmental Accounting Standards Board (GASB) Statement No. 3 risk disclosures for the District's cash deposits are as follows:

<u>Deposits</u>	<u>Carrying Amount</u>	<u>Bank Balance</u>
Insured (FDIC)	\$ 37,350	\$ 41,552
Imprest cash	<u>300</u>	<u>-</u>
Total Deposits	<u>\$ 37,650</u>	<u>\$ 41,552</u>

NOTE E--RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District continues to carry commercial insurance for property, liability, wrongful acts, crime, inland marine, and other risks of loss including workers' compensation and accident insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past 3 fiscal years.

NOTE F--CHANGE IN ACCOUNTING PRINCIPLE

As of October 1, 2003, the Conservation District has implemented Statement No. 34, "Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments," as amended, by Statement No. 37, "Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments Omnibus," which established new financial reporting standards for state and local governments. This statement requires a significant change in the financial reporting model used by local governments, eliminating account groups and utilizing the full accrual basis of accounting and the economic resources measurement focus. Another significant change is the "Management Discussion and Analysis Section," which provides an overall analysis of the financial position and results of operations and conditions that could have a significant effect on the financial position or results of operations.

Statement No. 38, "Certain Financial Statement Note Disclosures," requires certain note disclosures when implementing GASB Statement No. 34. Also implemented was Interpretation No. 6, "Recognition and measurement of Certain Liabilities and Expenditures," as of October 1, 2003.

**IONIA CONSERVATION DISTRICT  
SCHEDULE OF REVENUES  
BUDGET AND ACTUAL--GENERAL OPERATING FUND  
For the Year Ended September 30, 2004**

**EXHIBIT D**

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
Federal Grants				
NRCS--TSP Grant	\$ 12,000	\$ 12,000	\$ 12,015	\$ 15
Total Federal Grants	\$ 12,000	\$ 12,000	12,015	15
State Grants				
MDA--Operations	20,000	20,000	20,000	-
Total State Grants	20,000	20,000	20,000	-
Local Units of Government				
Ionia County	10,000	10,000	10,000	-
Total Local Units of Government	10,000	10,000	10,000	-
Charges for Services				
Workshops		750	800	50
Soil Books	500	300	330	30
Drill	2,350	4,200	6,930	2,730
Tree Sales	56,700	49,000	47,941	(1,059)
Seeds	4,300	54,756	54,607	(149)
Bulbs			409	409
Other Books		2,200	2,674	474
Materials for Resale	900	1,200	2,082	882
Total Charges for Services	64,750	112,406	115,773	3,367
Interest and Rents				
Interest Earned	275	275	126	(149)
Total Interest and Rents	275	275	126	(149)
Other				
Donations From Private Sources			1,468	1,468
UW--Education	2,500	2,500	3,125	625
Total Other	2,500	2,500	4,593	2,093
Total Revenues	\$109,525	\$157,181	\$162,507	\$ 5,326

**IONIA CONSERVATION DISTRICT**  
**SCHEDULE OF EXPENDITURES**  
**BUDGET AND ACTUAL--GENERAL OPERATING FUND**  
**For the Year Ended September 30, 2004**

**EXHIBIT E**

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
General Government				
Payroll Expenses--Administrator	\$ 33,000	\$ 32,500	\$ 32,835	\$ (335)
Payroll Expenses--Education Coordinator	8,500	16,300	16,764	(464)
Payroll Expenses--TSP Grant Coordinator	16,000	12,000	12,141	(141)
Payroll Expenses--Directors	3,100	3,100	2,742	358
Workers' Compensation Insurance	400	548	548	-
Insurance Unemployment			1,226	(1,226)
IRA Expense	260	260	390	(130)
Employer Match		4,646	4,667	(21)
Supplies	150	150	207	(57)
Postage	3,200	1,700	1,492	208
Professional Services	2,400	2,882	2,881	1
Drill Expense	2,125	4,200	5,925	(1,725)
Refunds and Reimbursements		3,488	3,488	-
District Other	300	1,100	1,751	(651)
Equipment Maintenance and Repair	250	100	50	50
Printing	2,500	1,900	1,274	626
Education		1,100	4,191	(3,091)
Advertising and Promotion	1,000	1,800	1,457	343
Mileage		4,000	4,495	(495)
Phone	450	765		765
Dues	1,190	1,091	1,115	(24)
District Expense Bank Charges	1,000	50	138	(88)
Shipping and handling			381	(381)
Cost of Goods/Trees Sold	33,300	25,000	27,117	(2,117)
Cost of Seed Sold		37,000	39,711	(2,711)
Cost of Books Sold		1,100	1,367	(267)
Cost of Bulbs Sold			218	(218)
Materials for Resale	400	400	384	16
Total Expenditures	\$ 109,525	\$157,180	\$168,954	\$ (11,774)



JENNIFER M. GRANHOLM  
GOVERNOR

STATE OF MICHIGAN  
DEPARTMENT OF TREASURY  
LANSING

JAY B. RISING  
STATE TREASURER

November 8, 2004

Board of Directors  
Ionia Conservation District  
2568 Heartland Boulevard  
Ionia, Michigan 48846-8438

RE: Report on Compliance and on Internal Control over Financial Reporting  
Based on an Audit of Financial Statements Performed in Accordance With  
Government Auditing Standards

Dear Directors:

We have audited the financial statements of the Ionia Conservation District as of and for the year ended September 30, 2004, and have issued our report thereon dated November 8, 2004.

As described in Note F, the Conservation District has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, "Basic Financial Statements- and Management's Discussion and Analysis-for State and Local Governments," as of October 1, 2003.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance--As part of obtaining reasonable assurance about whether the Ionia Conservation District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards. However, we noted an immaterial instance of noncompliance, which we have reported to the management of the Ionia Conservation District in the accompanying Comments and Recommendations Section of this report as finding 04-05 through 04-08.

Internal Control Over Financial Reporting--In planning and performing our audit, we considered the Ionia Conservation District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting.

However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition.

Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Ionia Conservation District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying report on Comments and Recommendations as finding 04-01 through 04-04.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we noted no matters involving internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of management, the council members, Federal awarding agencies, and State and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.



Cary Jay Vaughn, CPA, CGFM  
Audit Manager  
Local Audit and Finance Division

IONIA CONSERVATION DISTRICT  
COMMENTS AND RECOMMENDATIONS

REPORTABLE CONDITIONS

Although the following are not considered material weaknesses in internal control, we wish to point out certain other reportable conditions for consideration by the management of Ionia Conservation District.

Checking Account Bank Reconciliation Cut-off and Comparison to Accounting Records

*Finding 04-01*

*Condition:* The checking account is being reconciled to the balance maintained in the checkbook and not to the balance in the accounting records. The cut-off being used is the day the reconciliation is being made. This procedure does not allow for the actual month end balance to be compared with the bank reconciliation.

*Criteria:* The ending bank statement balance should be reconciled to the book balance, including the identification of all reconciling items (deposits in transit, outstanding checks, overages, shortages, unrecovered NSF checks, bank service charges, checks cleared in error, bank errors, credit memos, debit memos and other items on the bank statement that are not on the accounting records and vice versa).

Reconciling items should be brought to the attention of the bank and responsible management. The items should be properly disposed of, adjusted and eliminated prior to completion of the following month's bank reconciliation.

Unreconciled differences between the bank statement balance and the book balance should be resolved on a timely basis. Should an unreconciled difference exist which cannot be found, the unreconciled difference should be properly adjusted through the budget on at least an annual basis.

In order to properly monitor the completion of bank reconciliations on a current basis and to be aware of any unreconciled differences, completed bank reconciliations should be periodically reviewed by management.

*Recommendation:* Bank reconciliations should follow the above procedures and use a cut-off of the last day of the month.

Payment Voucher Requests

*Finding 04-02*

*Condition:* Payment vouchers do not include the account classification.

*Criteria:* Source documentation must include account classification for posting to the accounting records.

IONIA CONSERVATION DISTRICT  
COMMENTS AND RECOMMENDATIONS

REPORTABLE CONDITIONS (Continued)

*Recommendation:* We recommend that the account classification be included on each disbursement voucher. The account classification should be checked prior to payment to ensure that there is sufficient budget available to make the requested disbursement.

Accrued Wages Payable

*Finding 04-03*

*Condition:* Accrued wages payable is not recorded by the district at year-end. This is the second year that Michigan Department of Agriculture has required modified accrual based accounting records.

*Criteria:* Under the modified accrual basis of accounting revenues are recorded when susceptible to accrual, i.e., both measurable and available. Available means collectible within the current period or soon enough thereafter to be used to pay the liabilities of the current period. Current expenditures are generally recorded when the fund liability is incurred, if measurable.

*Recommendation:* We recommend accrued wages be recorded at year-end for wages earned by employees but not yet paid. The District match would also be included as part of the accrual.

*Management Response:* The District will comply with the recommendation.

Accounts Payable in the General Ledger and Trial Balance Reports

*Finding 04-04*

*Condition:* We found that the balance for accounts payable on the general ledger was \$451.92 and on the trial balance was \$350.51 for a difference of \$101.41. The general ledger shows the detail and the trial balance shows the summary. These two reports should be in agreement with each other. The trial balance was accounted for using the cash basis and the general ledger used the modified accrual basis.

*Criteria:* Reports generated by the accounting system should reconcile to each other.

*Recommendation:* We recommend that reconciliation and review procedures be implemented to ensure that all reports generated by the system are in agreement. A review and change of the original set up of the interrelation of the two reports is necessary in order to have the reports be in agreement. They should both be accounted for using the modified accrual basis of accounting.

*Management Response:* We will seek assistance in changing the trial balance to the modified accrual basis of accounting.

IONIA CONSERVATION DISTRICT  
COMMENTS AND RECOMMENDATIONS

NONCOMPLIANCE WITH STATE STATUTES

Our examination revealed the following instance of noncompliance with State statutes.

Sales, Use and Withholding Tax

*Finding 04-05*

*Condition:* A grant from the State of Michigan was received for the purpose of printing soil books. The conservation district is not charging sales tax on soil books being offered for resale to customers.

*Criteria:* According to MCL 250.52, sales tax is to be charged on items offered for resale to retail customers.

*Directive:* The district should calculate the amount of sales tax owing and remit the amount to the State.

Budget Violations

*Finding 04-06*

*Condition:* The District's budget policy provides for the board to adopt and control the General Fund's budgets at the fund level. During the year ended September 30, 2004, expenditures were incurred in excess of amounts appropriated for the following line-item.

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Operating Expenditures	\$ 157,180	\$ 168,954	\$ (11,774)

*Criteria:* Public Act 2 of 1968, as amended, requires the legislative body to adopt a general appropriations act for the budget of the General Operations. The act also requires that amendments be approved as needed to prevent actual expenditures from exceeding those provided for in the General Appropriations Act.

*Directive:* We recommend that budget amendments be presented to the board for approval so as to comply with Public Act 2 of 1968.

*Management Response:* Will adopt Michigan Department of Agriculture budgeting requirements to be completed by September 30, 2005.

Investment Policy

*Finding 04-07*

*Condition:* As of September 30, 2004, the board of directors has not adopted an investment policy.

*Criteria:* According to Public Act 20 of 1943, as amended, a formal investment policy is to be adopted by the board no later than August 31, 1998.



IONIA CONSERVATION DISTRICT  
COMMENTS AND RECOMMENDATIONS

NONCOMPLIANCE WITH STATE STATUTES (Continued)

*Directive:* We direct that an investment policy be established in accordance with Public Act 20 of 1943.

*Management Response:* Will adopt an investment policy to be completed by September 30, 2005.

Electronic Transactions of Public Funds

*Finding 04-08*

*Condition:* Ionia Conservation District electronically transfers funds for payroll withholdings and receives direct deposits without legal authority.

*Criteria:* According to MCL 124.303:

“A local unit shall not be a party to an Automated Clearing House (ACH) arrangement unless the governing body of the local unit has adopted a resolution to authorize electronic transactions and the treasurer or the Electronic Transaction Officer (ETO) of the local unit has presented a written ACH policy to the governing body. The ACH policy shall include all of the following:

- (a) That an officer or employee designated by the treasurer or ETO is responsible for the local unit's ACH agreements, including payment approval, accounting, reporting, and generally for overseeing compliance with the ACH policy.
- (b) That the officer or employee responsible for disbursement of funds shall submit to the local unit documentation detailing the goods or services purchased, the cost of the goods or services, the date of the payment, and the department levels serviced by payment. This report can be contained in the electronic general ledger software system of the local unit or in a separate report to the governing body of the local unit.
- (c) A system of internal accounting controls to monitor the use of ACH transactions made by the local unit.
- (d) The approval of ACH invoices before payment.
- (e) Any other matters the treasurer or ETO considers necessary.”

*Directive:* We direct the Conservation District board to adopt a resolution to authorize electronic transactions and to adopt a policy that includes the above mentioned items.

*Management Response:* Will adopt an ACH Electronic Funds Transfer policy to be completed by September 30, 2005.